

Board Monitor US 2020

This year's Board Monitor report explores how boards sought to diversify in 2019—with impressive gains for women but minimal changes for people of color—and added a mix of new and familiar expertise. As boards seek to help their companies through the greatest global economic contraction in a century, a pandemic, and ongoing global demands to end racial injustice and inequality, these are directors with valuable and fresh perspectives.



About Board Monitor

Produced by Heidrick & Struggles' CEO & Board Practice, Board Monitor tracks and analyzes trends in non-executive director appointments to Fortune 500 boards. Data on appointments are tracked through BoardEx, proxy filings, and corporate websites.

Information about executives is gathered from publicly available sources, BoardEx, and a Heidrick & Struggles proprietary database. For the sixth consecutive year, in tracking the experience of new appointees, the report takes into account all the significant industry experiences of each director (for example, a new director who has worked most recently in the consumer industry may also have valuable experience in the industrial sector or in technology).

**Thanks to the following
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Growing responsibilities, new challenges

Boards around the world faced growing responsibilities, new challenges, and the need for improved dynamics even before COVID-19, the resulting economic downturn, and the increased focus on addressing racial injustice.

Proven expertise and increased diversity were top priorities for boards as they nominated new directors to help meet those demands, and they will need more of both to succeed in 2020.

In 2019, boards were facing a range of competing expectations for the new members they would add to meet their ever-growing remit. Modern boards are expected to possess significant expertise in areas as specialized and diverse as digital transformation, cybersecurity, corporate reputation management, sustainability, and social media, to name just a few, and also include diversity in terms of gender, racial and ethnic background, age, and national origin, among other characteristics.

In addition to the benefits gained from board members with specific expertise, it's also widely accepted that more diverse teams make better decisions. That benefit of diversity is particularly important to companies now and should be further motivation for them to invest in sustained efforts to increase diversity and inclusion.

Most boards in the 15 countries we study¹ made some progress in adding new members with diverse

backgrounds and skills: from different countries and regions, functions, age groups, ethnicities, and genders. For example, nearly half, or 44%, of non-executive director appointments in the United States last year were women, the highest proportion since we began tracking board appointments 11 years ago. People of color also have made some progress on boards in the United States—with appointments increasing from 13% in 2010 to 23% in 2019—although the rate of change has been notably slow, taking 9 years to increase by only 10 percentage points. Given the recent increased focus on racial injustice and social inequality around the world, many leaders are reconsidering their diversity and inclusion efforts, including on boards. Most are finding they can do much better in building representation internally and in supporting Black communities as well as other communities of color, both internally and externally.

Most boards around the world also continued to add a number of more traditional directors. This includes people with prior board experience—72% of appointments in the United States—and prior experience as a CEO or CFO.

Though such directors don't as often add diversity in other areas, their experience has been particularly valued by nominating committees when companies face significant enterprise risk.

Indeed, among the characteristics of new directors we have been tracking, we note a few trends among new directors globally, which are somewhat at odds with each other.

Some progress on diversity:

- Women continue to make significant gains among newly added directors compared to previous years.
- Racial or ethnic, nationality, and age diversity improvements have been disappointing, with little progress to report anywhere in the world.
- Functional experience on boards has increased, with a corresponding decrease in CEO experience. In particular, digital expertise, now essentially a given on boards, trended highest. With sustainability and cybersecurity rising as central concerns for companies and financial risk remaining a critical priority, boards also focused on adding experience in these areas.

¹ Australia, Belgium, Brazil, Canada, France, Germany, Hong Kong, Ireland, Netherlands, New Zealand, Portugal, United Kingdom, United States, Singapore, and Spain are included in our studies of boards.



A continuing preference for traditional experience:

- First-time directors are still not as common as experienced ones, despite boards' stated focus on increasing diversity.
- Financial expertise and experience in financial services sectors remained highly sought-after backgrounds.
- Though the proportion of directors with CEO experience has continued to decline annually, it remains the most common type of prior expertise, followed by CFO experience.

As companies reshape themselves in the new environment 2020 is presenting, there will be many new opportunities for those who want to be best positioned for accelerated performance. In part, that means building the most capable board tailored to each company's unique strategy.

Of course, simply ensuring a board has an appropriate mix of perspectives is just the start. To be highly effective, a board must be clear on its purpose: what it stands for as an entity and whom it represents in a global society.

Boards must also align on how they will serve as an underpinning for a purpose-driven, socially responsible organization that delivers value to a wide range of stakeholders. Social responsibility may be more important than ever before in the wake of the demonstrations against discrimination and renewed focus on racial justice. And boards must have a culture and processes that ensure they can work well together to be most effective. We've seen many boards in which directors don't work well together, and with the added pressure from economic and societal volatility, these fractures present more risk for boards than ever before.

The solution is inclusion broadly defined. Many boards think of inclusion particularly in relation to their significant efforts to add diversity. But today, boards will benefit most from ensuring that every member is able to contribute fully, regardless of the board's traditional norms or habits, varying personalities, inherent biases, or for any other reason.²

In this report, you'll find the data and our observations on the 2019 class of directors at Fortune 500 companies.

Building more diverse boards

To build more diverse boards, organizations need to have intentional and sustained recruitment efforts and keep a few critical strategies in mind:

- Ensure that every list of appointments, as well as longer-term board succession plans, includes diverse individuals.
- Target executives with experience in key functional roles—such as CHROs, CMOs, general counsels—as the insights and skills these individuals possess can be just as valuable as those of more traditional CEO and CFO profiles.
- Broaden the board's network to include leaders from academia, government, medicine, the military, and social impact and non-profit organizations.
- Build relationships with diverse executives earlier in their careers to establish a sustainable roster of future directors.

² For more on Heidrick & Struggles' thinking on board dynamics, see Alice Breeden, David Hui, and Anne Lim O'Brien, *Future-Proofing Your Board*, Heidrick & Struggles, May 29, 2020, heidrick.com.

Snapshot of 2019 findings

Key figures

New director seats filled

467

Current and former CEOs

50%

Average age

59

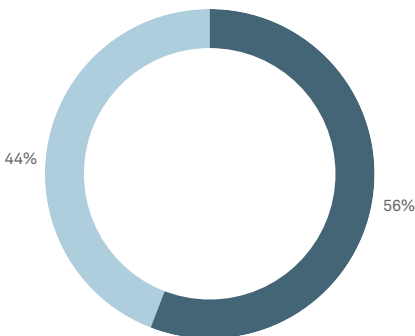
Current and former CFOs

21%

Diversity breakdown

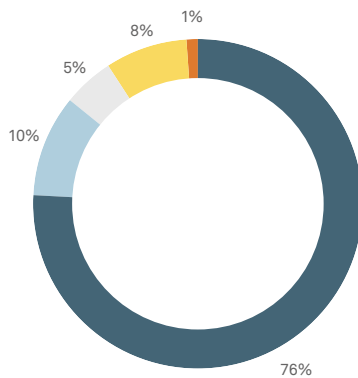
Gender

- Male
- Female



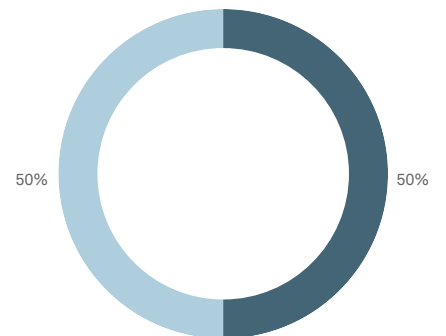
Ethnic background

- Caucasian
- African American
- Hispanic
- Asian/Asian American
- Other

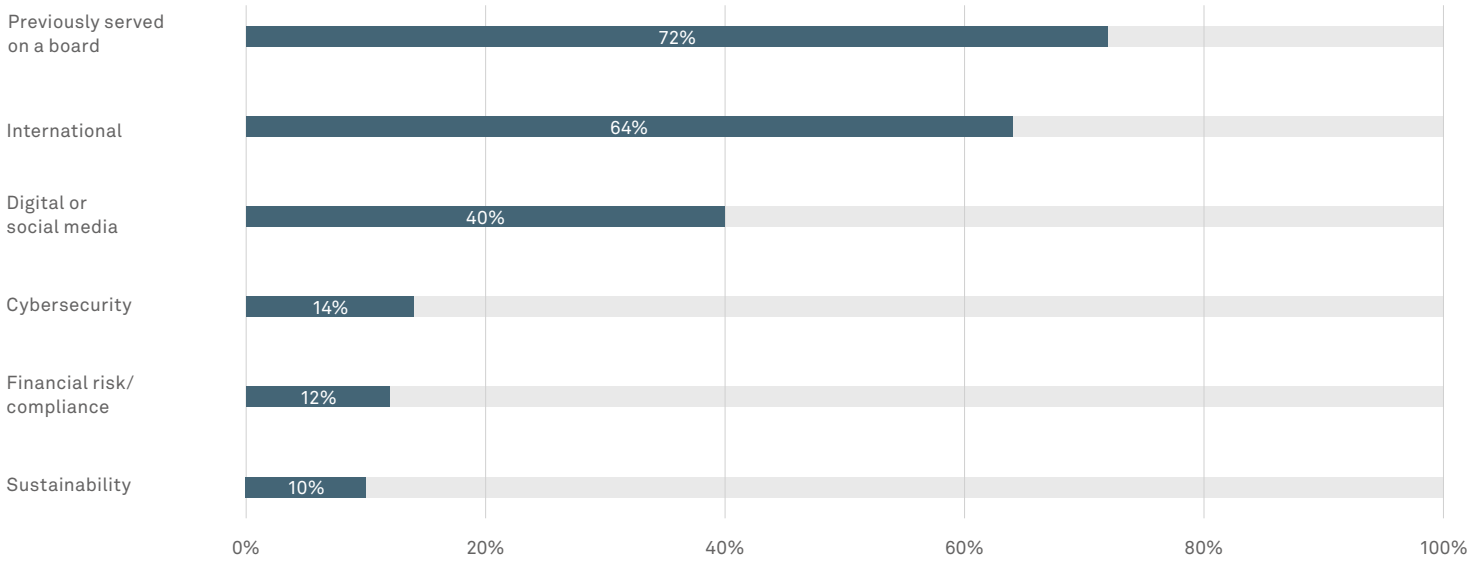


Active/retired executives

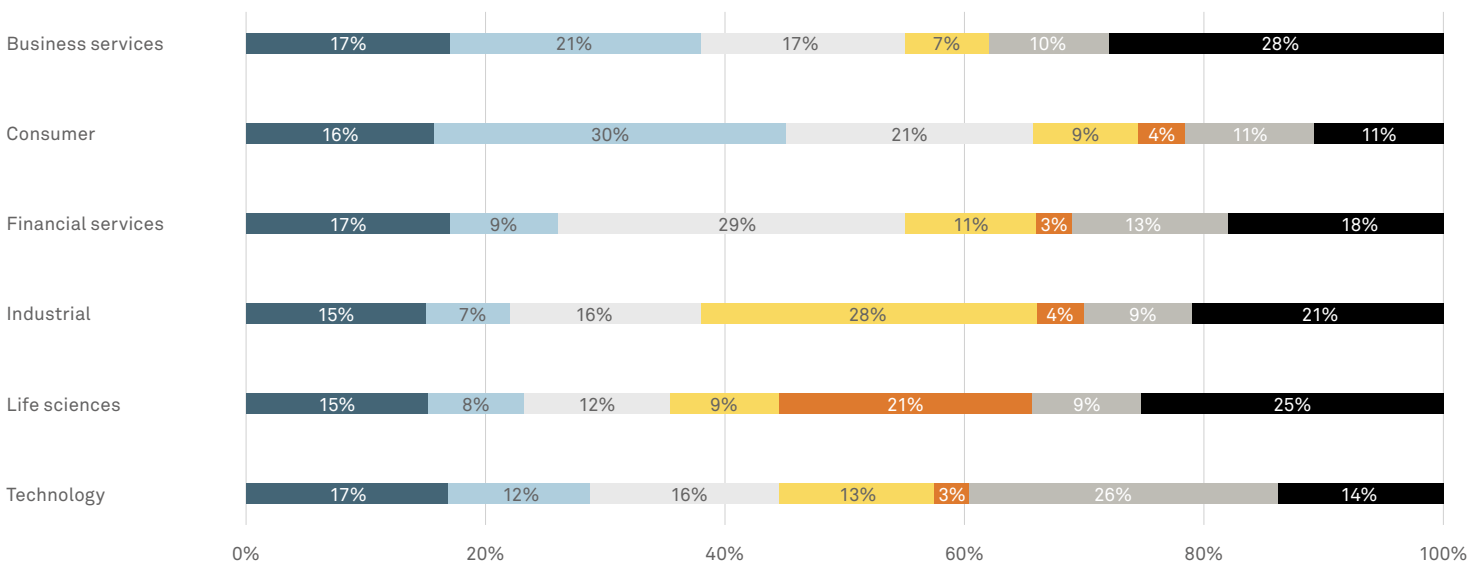
- Active
- Retired



Experience



Distribution of previous industry experience by industry



Note: Numbers may not sum to 100%, because of rounding.

- Business services
- Financial services
- Life sciences
- Other
- Consumer
- Industrial
- Technology



72%

Board openings filled
by directors with previous
public board experience

In 2019, boards sought a balance of experience and fresh perspectives

Looking at director appointments last year at some of the largest companies in the United States, we see boards prioritizing gender diversity while also relying on individuals with tested experience.

Since we started tracking data on board appointments in the United States, the proportion of women occupying those seats has consistently increased, moving from just 19% in 2010 to an impressive 44% last year. The progress in gender diversity for board appointments appears to be improving the diversity of overall board composition, too. Last year, 27% of Fortune 500 board seats were occupied by women, compared to 22.5% in 2018.³

There has also been progress for people of color; however, the rate of change has been disappointing. Since 2010, the proportion of appointments of African Americans, Hispanics, Asians, and Asian Americans has increased only 10 percentage points. In order to create meaningful representation, boards need to be intentional and sustained in their efforts to recruit people of color. Change is essential and boards will need to move quickly and decisively to diversify.

Along with diversity, boards have also prioritized nominating directors with significant experience, such as previous corporate board, CFO, and

CEO experience. Nearly three-quarters, or 72%, of appointments had previous public board experience in 2019. Our data were collected before the current pandemic and ongoing demonstrations, when boards were grappling only with their ever-expanding remit and developing economic challenges including trade wars, continued disruption across industries, and the possibility of a contracted global economy. However, such concerns have greatly multiplied in recent months, and we anticipate boards continuing to prioritize previous board and C-suite experience both because experienced directors are often more able to negotiate boardroom dynamics and because experience leading through prior crises is highly valued as companies struggle with uncertainty about future profitability—or even viability.

Since 2010, the proportion of appointments of African Americans, Hispanics, Asians, and Asian Americans has increased only 10 percentage points.

Director experience in great demand

Prior board experience has been paramount as US boards add new directors, with 2019 having the highest percentage in the US Board Monitor's 11-year history.

We believe, however, that the value of prior board service diminishes over time. The value of having worked on other companies' boards lies in bringing perspective on how to solve contemporary problems, work better as a team, or anticipate future challenges. Although individuals with longer careers as directors can bring substantial wisdom, in our experience, boards have started to scrutinize director tenure more closely to ensure there's a balance of fresh perspectives and time-tested approaches that contribute the greatest value to the organization's unique strategy.

³ Information obtained from BoardEx.

Women continue to make significant gains

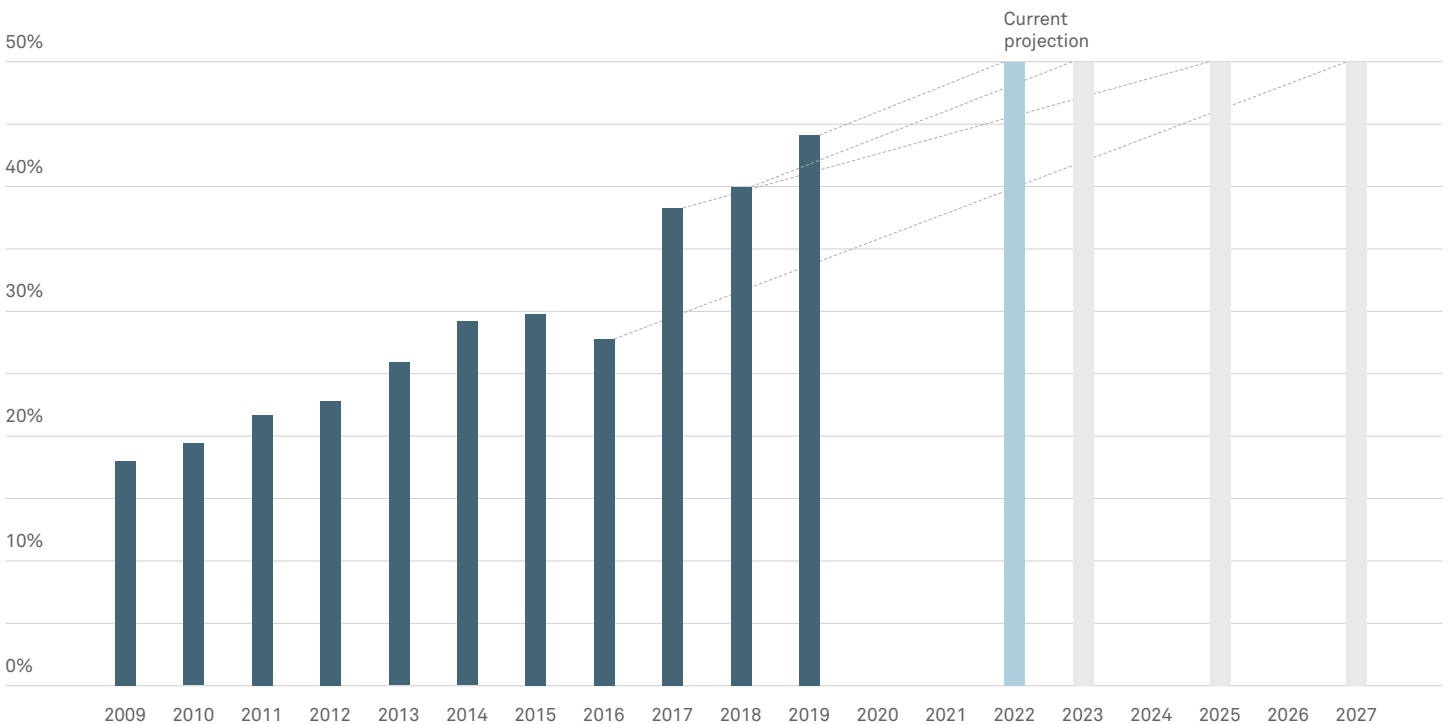
Women were also in greater demand as directors in 2019, and there is now a critical mass of women in senior executive positions, the ranks from which directors are generally selected.

Many more women now have board experience—or experience dealing with boards in their senior management positions—and sophisticated networks are bringing capable women to the attention of nominating committees. Boards are also becoming more intentional in their recruitment efforts, often making gender diversity one of their primary goals when nominating new directors.

Another reason women may be gaining ground is that the traditional directors of choice—CEOs, valued for their enterprise-wide operating experience—have been far less available as they take on fewer directorships. In addition, most of them are male. Although directors with CEO experience still accounted for 50% of new directors in 2019, that was a drop of 10 percentage points from 2018. To fill the gap, boards are finding other ways to gauge broad operational expertise, with P&L experience emerging as a proxy for CEO experience. With many more women in senior leadership positions, some are running divisions as large as or larger than many good-sized companies and,

for all intents and purposes, operate as CEOs. In these roles, executives encounter many of the same complex operational and personnel issues across different geographies as a typical CEO does. Organizations also see opportunities to bring in directors with more niche exposure to particular geographies or industry experience through these P&L roles when such expertise is important for their particular strategy. In order to find this talent, however, boards need to be creative in their approach and flexible in terms of what roles and companies they are targeting.

Shrinking time to gender parity in appointments to Fortune 500 boards



Representation of people of color still lagging

While representation of African Americans, Hispanics, and Asians or Asian Americans on boards has significantly increased over the past decade, there has been little change since 2016. According to 2019 data, African Americans accounted for 10% of new board seats, Hispanics for 5%, and Asians and Asian Americans for 8%.

While many boards have committed to recruiting more women, they haven't been as intentional and consistent in recruiting people of color. To make further progress, boards will need to expand their recruiting strategy by casting a wider net for candidates who may otherwise go unnoticed. That includes leaders in P&L roles and candidates deeper down

in organizations, as well as looking beyond public companies—for example, for leaders of private companies, academic institutions, and professional services firms who could contribute needed skills and expertise as well as fresh perspectives.

Taking such approaches may help nominating committees meet some of the current demands for representation. In the longer term, representation of people of color should increase as more people from previously underrepresented groups gain access to senior management positions, particularly those with P&L responsibility. Currently, people of color tend to be more concentrated in non-P&L roles such as HR and marketing and sales

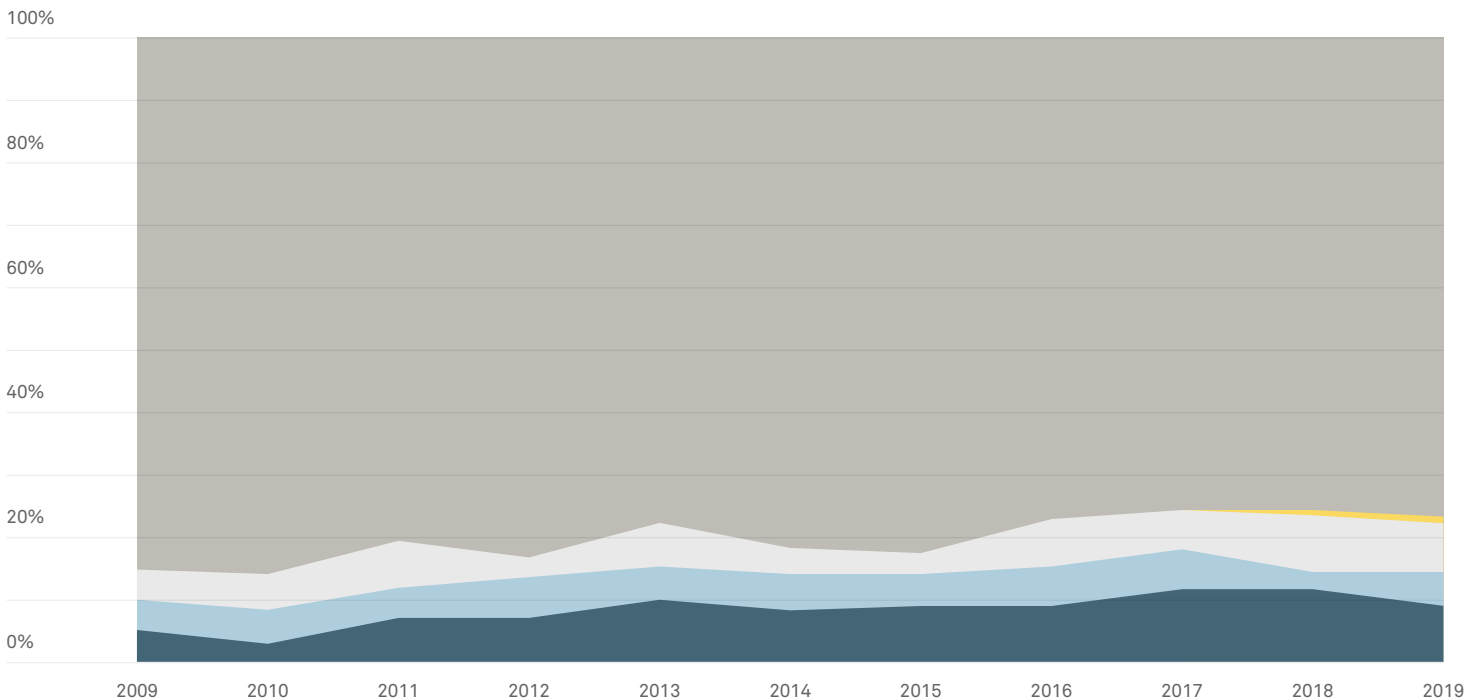
positions but severely underrepresented in executive team roles. In fact, a recent study showed that only 32% of ethnic minorities on Fortune 100 executive teams have P&L responsibility.⁴ Expanding the networks, roles, and organizations boards are targeting for new directors can help them bring in more diverse directors who have crucial operational experience and other expertise outside of the typical CEO profile.

Beyond taking a sustained approach to recruiting directors from many different backgrounds not traditionally present on the board, it's important, too, that boards have a culture and process that enable new-to-board-service directors to contribute fully once there.

⁴ David F. Larcker and Brian Tayan, "Diversity in the C-suite: The dismal state of diversity among Fortune 100 senior executives," *Stanford Closer Look Series*, Stanford Graduate School of Business, April 1, 2020, gsb.stanford.edu.

New board director appointments, by race and ethnicity, 2009–2019

- African American
- Hispanic
- Asian/Asian American
- Other
- Caucasian



CFOs and digital experts are now board staples

CFOs accounted for 21% of new board positions last year, a percentage that has held fairly steady for the past few years. We expect that boards will continue to rely on CFO directors, who are indispensable for their financial expertise and broad management and organizational perspective, to help companies regain their footing in the coming year. Forty-six percent of new directors have prior audit committee experience, and other financial expertise, specifically in risk and compliance, increased to 12%, from 8% the previous year.

Last year, 40% of director appointments had digital or social media experience—directly relevant to many companies’ strategies across a wide array of industries.

Boards have also come to rely on digital and cybersecurity executives because of their enterprise-wide importance. Not surprisingly, executives with these skills and backgrounds are still in great demand as directors. Last year, 40% of director appointments had digital or social media experience—directly relevant to many companies’ strategies across a wide array of industries—up from just 10% in 2016. Cybersecurity expertise also increased significantly, from 6% in 2017 to 14% last year.

Executive career experience of board appointments

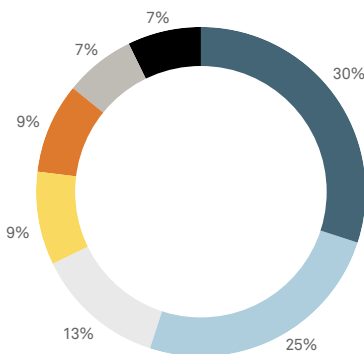
C-suite functional experience



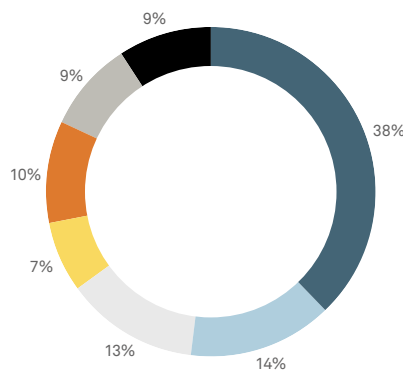
Other functional, management, and industry experience

- P&L leader
- Military
- Private equity/venture capital
- Other functional leader
- Managing consultant
- Professor/dean/academic
- Other

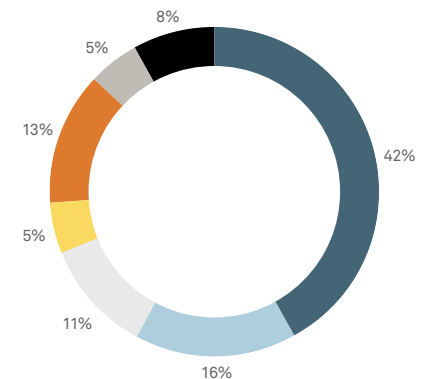
Overall



Women



People of color*



*African Americans, Hispanics, Asian/Asian Americans

Looking ahead

We expect to see the impact of a tumultuous 2020 on board recruitment data we present in our 2021 Board Monitor reports. One thing the pandemic has reminded us is how deeply interconnected economies and societies around the globe are.

We anticipate boards will continue to value experience in different countries and insight into how they fit into the broader global economy.

Boards will likely continue to seek directors with previous board experience as organizations try to stabilize. Indeed, recently published institutional investor and proxy advisor policies suggest a more relaxed stance toward director “overboarding”—or the limit on how many public boards an individual can serve on—to account for companies’ unique challenges in 2020.⁵

We also expect to see continued reliance on financial expertise and experience in different financial services sectors, perhaps with a shifting focus to sub-

We expect that boards significantly increase their efforts toward greater racial and ethnic diversity—in particular, to make boards themselves and senior leadership teams more representative of and equitable to the employees, customers, shareholders, and communities they serve.

specialties required in an altered environment, such as experience in bankruptcies and restructuring as well as in capital markets.⁶ Similarly, we anticipate organizations will continue to seek directors with other areas of expertise, such as digital and sustainability, to not only weather the crisis but also thrive in the long term.

Finally, and perhaps most important, we expect boards to significantly increase their efforts toward greater racial and ethnic diversity—in particular, to make boards themselves and senior leadership teams more representative of and equitable to the employees, customers, shareholders, and communities they serve.



⁵ Andrew R. Brownstein, Sabastian V. Niles, and Justin C. Nowell, “Institutional investors signal: A mix of tougher standards and heightened flexibility for the 2020 proxy season,” Harvard Law School Forum on Corporate Governance, May 2, 2020, corpgov.law.harvard.edu.

⁶ Elisabetta Bartoloni and Shannon Bade, “Restructuring expertise: Bringing a new voice to the boardroom,” Heidrick & Struggles, May 21, 2020, heidrick.com.

CEO & Board Practice

Heidrick & Struggles' CEO & Board Practice has been built on our ability to execute top-level assignments and counsel CEOs and board members on the complex issues directly affecting their businesses

We pride ourselves on being our clients' most trusted advisor and offer an integrated suite of services to help manage these challenges and their leadership assets. This ranges from the acquisition of talent through executive search to providing counsel in areas that include succession planning, executive and board assessment, and board effectiveness reviews.

Our CEO & Board Practice leverages our most accomplished search and leadership consulting professionals globally who understand the ever-transforming nature of leadership. This expertise, combined with in-depth industry, sector, and regional knowledge; differentiated research capabilities; and intellectual capital, enables us to provide sound global coverage for our clients.

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